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DIRECTORATE OF  
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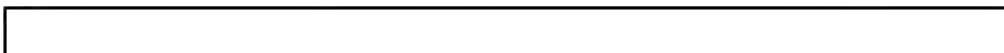
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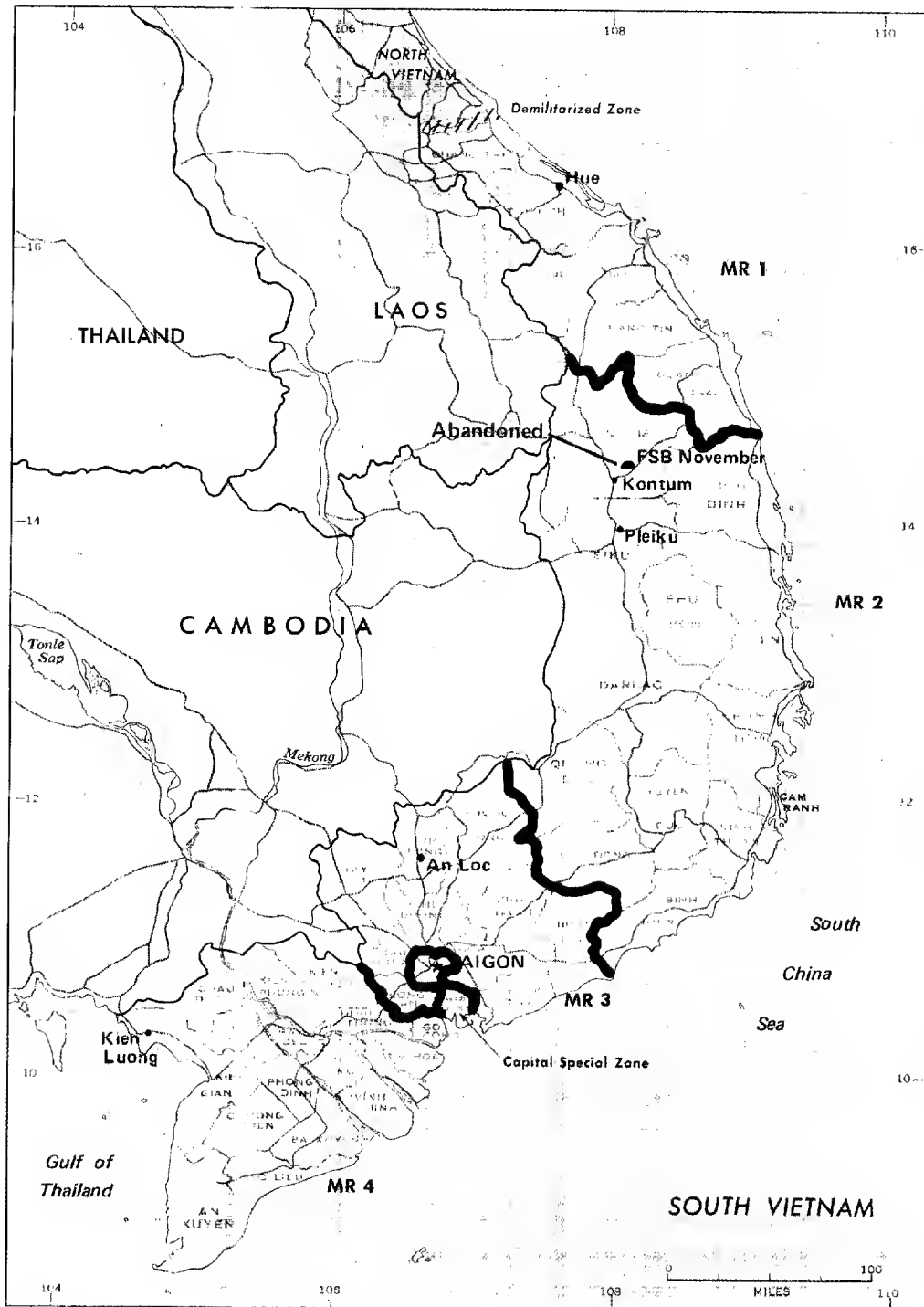


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VIETNAM: No new major attacks have been reported in South Vietnam, although shellings and scattered fighting continue throughout the country.

The North Vietnamese soon may stiffen their resistance to government operations west of Hue, where South Vietnamese forces have been advancing in the past few days.

Kontum City was shelled again early Friday, and Communist infantry probed the town and its perimeter defenses. Fire Support Base November, just north of Kontum, was abandoned, and its defenders were moved into the provincial capital. [ ] says air strikes have hampered final Communist preparations for an assault against Kontum. Such difficulties sometimes cause the enemy to delay final attack plans, but seldom to cancel them. In Pleiku Province, government units were resupplied by a 100-truck convoy that reached the provincial capital via Route 19 from the coast. The key highway was opened by government troops on 17 May, although Communist units are still in the area and probably will again attempt to close the highway.

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In the delta the Communists have captured most of the district capital of Kien Luong in Kien Giang Province. The center of the city is deserted, and residents fleeing from the fighting say that they are certain the attacking troops are North Vietnamese. Earlier indications that the Phuoc Long Front was moving into the delta suggest that this attack is the start of a major military campaign in the delta.

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The Communists are still moving substantial amounts of supplies and equipment south along Cambodian roads near South Vietnam. [ ] report that in northeast Cambodia there is heavy truck

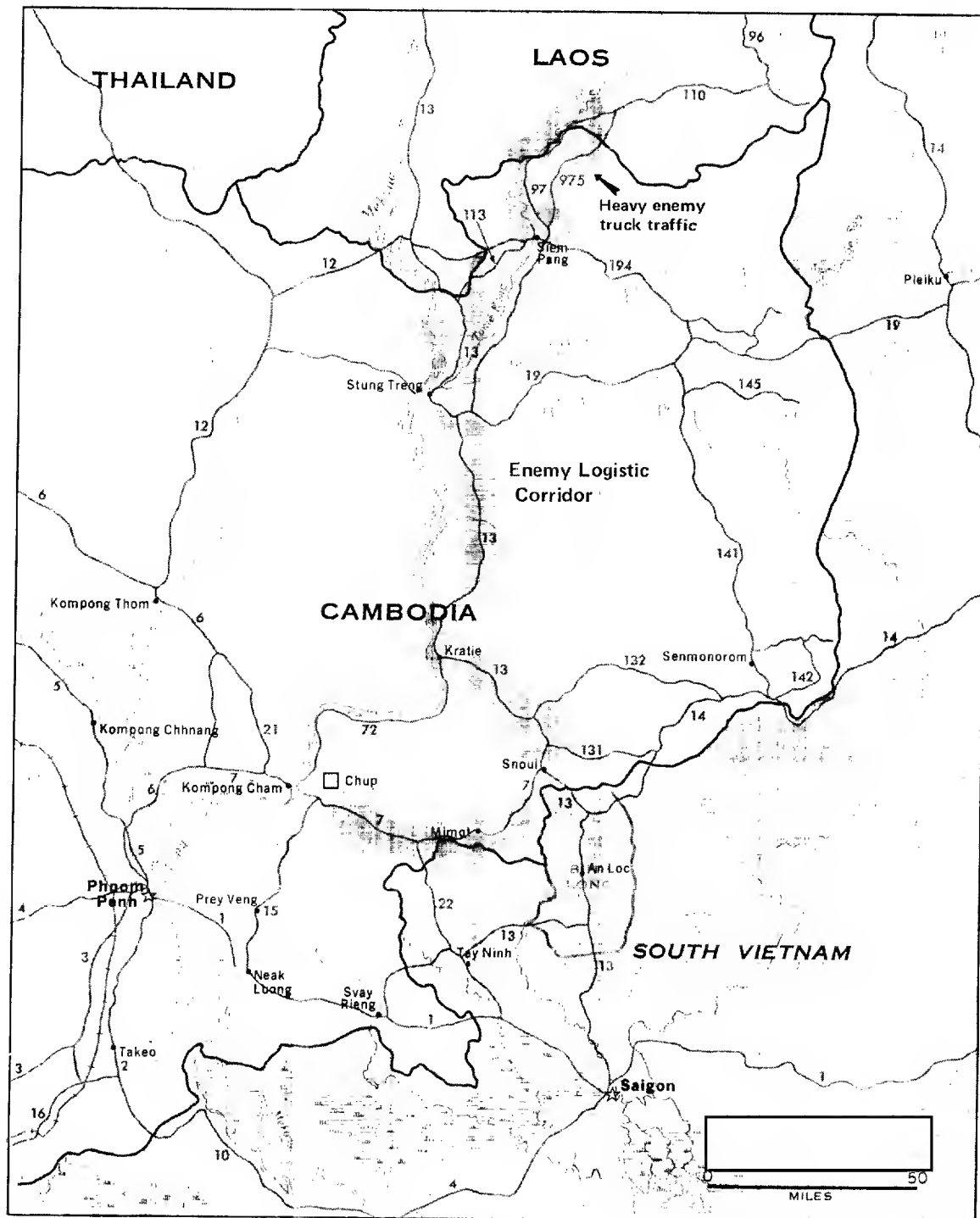
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25X1 traffic along recently widened Route 975 linking south Laos with the Stung Treng area of Cambodia--the jump-off point for Communist supplies destined for the southern half of South Vietnam. South of Stung Treng, [ ] report heavy Communist use of Route 13, particularly between Kratie City and Snuol, just north of South Vietnam's Binh Long Province. Numerous tanks were observed parked along the roadway on 18 May, while several camouflaged trucks were seen along Route 7, which connects Snuol with the Chup plantation and other major Communist supply points farther south.

\* \* \* \*

25X6 President Thieu's choice of General Toan to command Military Region 2 has reportedly been poorly received throughout the South Vietnamese military establishment. It is generally believed that there are many better qualified general officers available, [ ]

[ ] Thieu says that he considered other, possibly better qualified candidates, but they were unenthusiastic, and he wanted a hard-driving commander to take charge. Toan, Thieu says, is such a man. If General Toan's forces show little more fight than they did under his predecessor, General Dzu, Thieu will be particularly vulnerable to sharper criticism for appointing commanders on the basis of personal loyalty rather than on ability to lead.

\* \* \* \*

Hanoi continues to show uneasiness over prospects that the peace talks on Vietnam might be broadened. On 19 May, Radio Hanoi repeated earlier criticism of proposals to give the United Nations a direct role in the negotiations. The broadcast also scored the UK for allegedly calling for a new Geneva Conference on Indochina but went even further and

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implied that any sort of outside interference in the search for a solution to the Vietnam problem is unacceptable. Insisting that the issue must be settled between the US and Vietnam at the Paris Conference, Hanoi labeled the idea of internationalizing the problem "a sinister scheme of US imperialism." The North Vietnamese may have made these assertions on the eve of the US-Soviet summit talks in order to signal determination not to lose control of their own negotiating position.

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WEST GERMANY: Parliamentary consideration of the Eastern treaties is now complete, but final ratification may still be delayed.

A last-minute change in the Soviet position on the transmittal of the all-Bundestag resolution, coupled with a legal challenge against the Eastern treaties, threatens to add more poison to the political atmosphere in Bonn. Moscow refused to acknowledge receipt of the resolution with a written aide memoire as previously agreed. The Soviets probably decided to give only oral acknowledgment because the Christian Democrats failed to vote for the treaties on 17 May.

The legal challenge was lodged yesterday by a conservative politician who requested the Federal Constitutional Court to issue an injunction against the promulgation of the treaties. While the court is likely to reject requests made by individuals, the Bavarian state government, dominated by the Christian Social Union, is known to be considering a similar action. If the Bavarian government decides to initiate a court action, it probably will link its decision to the Soviet reversal. Any willingness by the court to accept a challenge would delay the entry into force of the treaties by several weeks, regardless of the final decision.

The Soviet reversal, which the Brandt government has accepted, came shortly before Foreign Minister Scheel was scheduled to hand the resolution to Soviet Ambassador Falin. Whatever Moscow's reason, it could serve to retard the near-term course of bilateral relations. Moscow's handling of the situation underscores the sensitivity of the treaty in Soviet councils.

Although it should not prevent President Heinemann from eventually signing the treaties, the Soviet about-face, when it becomes known publicly,

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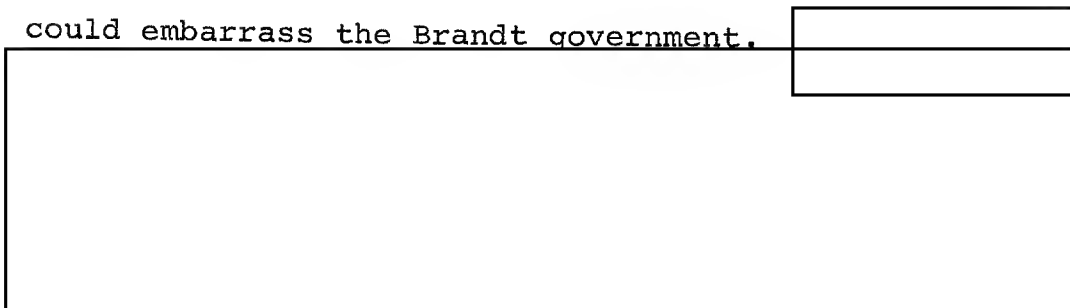
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could embarrass the Brandt government.

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JAPAN: Tokyo has developed a new economic program in an attempt to prevent pressure for another yen revaluation.

The program, which will be presented at next week's ministerial meeting of the Organization for Economic Cooperation and Development, is designed to help reduce Japan's trade surplus and utilize large foreign exchange revenues. Imports are to be encouraged, and disruption of foreign markets by Japanese goods is to be avoided. The outflow of Japanese capital is to be promoted by encouraging international institutions and foreign governments to float yen bonds and by facilitating the purchase of foreign securities. Japan also plans to stimulate its economy by speeding up public works.

Although the latest program is similar to the eight-point economic program introduced last June, it addresses more directly issues key to the US and Western Europe, indicating that Tokyo now may be more serious about carrying out significant changes. This partly reflects Tokyo's concern over constant pressure from the US and Western Europe to halt Japan's rapid penetration of their markets as well as a desire to avoid another revaluation. These concerns underlie Tokyo's willingness to reopen bilateral trade negotiations with the US in July despite earlier agreements on a one-year moratorium.

Tokyo will have some success in increasing the outflow of capital. It will encounter difficulties in achieving trade goals, however, because domestic producers, who may be hurt by import liberalization and orderly export marketing, have considerable political clout.

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CEYLON: The government will promulgate a new constitution on Monday; although it should be generally well received, it could lead to incidents involving the Tamil minority.

The Tamils, who comprise about 22 percent of the population, have been complaining that the new constitution does not adequately guarantee the use of their language in judicial and administrative affairs in Tamil regions of the country. They reportedly have been holding protest rallies, but so far these gatherings have not been particularly large or unruly. The demonstrations are scheduled to reach a climax on Monday. The Tamil leadership has declared they will remain non-violent. Moreover, the government's powers under existing emergency regulations should keep the rallies from developing into widespread disorders like those that grew out of Tamil protests on the language issue in the late 1950s and early 1960s.

There has been some public unhappiness over two other aspects of the new constitution--an apparent weakening of the judiciary and a delay in the next national elections from 1975 until 1977 or 1978. Under the new charter, Ceylon will be renamed the Republic of Sri Lanka. [REDACTED]

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BURMA-CHINA: The resumption of aid talks suggests that strains in relations caused by Peking's support of Burmese Communist insurgents have eased.

A Burmese Government economic delegation, led by the minister for planning and finance, arrived in Peking on 17 May to discuss aid projects. Rumors had circulated that Rangoon had suspended implementation of aid agreements made last fall out of pique over Chinese assistance to a Burmese Communist offensive late last year. A Burmese Foreign Ministry official recently indicated that the lack of visible progress on the program stemmed from Burmese disagreement with some of the Chinese project proposals. Peking subsequently suggested the visit to iron out the problems.

The Peking talks will center on projects remaining under the \$84-million credit extended in 1961. Rangoon halted this program when relations cooled following anti-Chinese riots in Burma in 1967. The unused portion, totaling some \$57 million, was reinstated following Prime Minister Ne Win's visit to Peking in August 1971, and the Chinese also granted a \$24-million interest-free commodity credit. [REDACTED]

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EUROPEAN SECURITY: A variety of pressures are working against Washington's desire to delay multilateral preparations for a Conference on Security and Cooperation in Europe until after the presidential election in the US. The signature of the Final Quadripartite Protocol on Berlin will follow soon after West German ratification of the Eastern treaties, thus satisfying the NATO condition for participating in preparatory talks. In Moscow the Soviets probably will press the President for a US commitment to early preparations in Helsinki. The Finns are telling the 34 countries expected to attend a CSCE that they will be ready to host preparatory sessions of chiefs of mission in September. When the NATO foreign ministers meet in Bonn on 30-31 May, most of the allies can be expected to favor starting CSCE preparations early this fall. [REDACTED]

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POLAND: Warsaw is seeking credits in the US and Japan to help finance a large increase in purchases of capital equipment from the West. A Polish trade mission on a recent visit to the US submitted a new shopping list of about 30 items, valued at over \$400 million, that the Poles hope to purchase during 1972-75. The major items include various types of electronics equipment for an oil refinery in Gdansk, a catalytic cracker in Plock, a petrochemical plant, a thin sheet mill, two meat processing plants, a brewery, and several textile plants. The Poles have made it clear that they cannot purchase this equipment unless they receive Export-Import Bank credits and guarantees. Poland also has requested credits of \$400 to \$500 million from Japan, presumably for at least some of the same equipment it is seeking in the US. The US and Japan previously have supplied only a small portion of Polish imports of Western machinery and equipment. [REDACTED]

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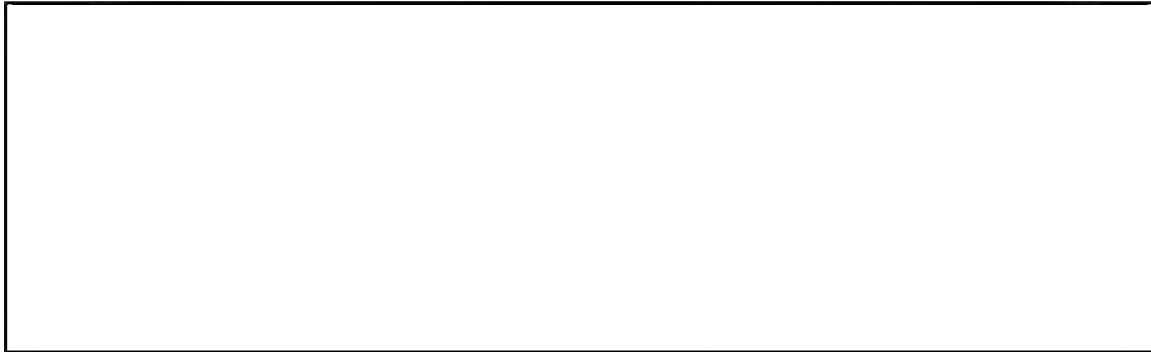
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FRANCE: The Bank of France has reduced the proportion of medium-term government and commercial securities that commercial banks are required to hold in an effort to expand the domestic money supply and to lower interest rates. Reduction of the relatively high interest rates should help to discourage the inflow of unwanted foreign capital and, by stimulating domestic investment, boost the lagging capital goods industries. Although an increase in the money supply should relieve pressure on the commercial franc, it will complicate the government's efforts to restrain inflationary pressures. The consumer price index in France rose six percent over the past 12 months. [REDACTED]

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AFGHANISTAN: Prime Minister Zahir has made no progress in resolving his difficulties with parliament. The debate in parliament over the government's performance in distributing food has verged on violence, and Zahir avoided appearing for questioning on 16 May. Public unrest, including strikes and demonstrations, continues, although it is somewhat diminished. The King could use his influence to prevent a vote of no-confidence, but some of the deputies who have talked with him recently believe he is prepared to let Zahir fall. [REDACTED]

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